Competition for Talent in Wealth Industry Stays Strong

BY **LORIE KONISH** FEB 1, 2013

Financial advisors are now in the driver's seat when it comes to how they want to practice, thanks to the competition for top talent that has stayed strong in the wealth industry this year, according to the eight panelists who attended our annual Recruiters Roundtable in New York in January. Financial advisors looking to switch firms have their pick among the wirehouses, regional, boutique, and independent firms who are eager to embrace them. Which firms are up, and which firms are down? Our recruiters share their picks in the pages ahead, and lay out what kind of hiring strategies will fare best long term. Hint: it's all about training and succession planning.

Lorie Konish/OWS: Last year our roundtable predicted a strong year for recruitment in 2012. How has this year been for your business?

Mindy Diamond: I don't think it was as robust as we may have predicted. While frustration levels at wirehouses remain high among advisors, I think that unforgiven or unamortized retention packages still were powerful golden handcuffs. I think that 2013 will be more robust than 2012.

RECRUITERS PICKS—In keeping with tradition, our eight panelists weighed in on how they might invest in the retail brokerage units of these firms. Check out which businesses they would buy, sell or hold now.

FIRM	BUY	SELL	HOLD
J.P. Morgan Chase	1	5	2
Barclays	6	2	0
Raymond James	7	0	1
Ameriprise	6	1	1
Wells Fargo	6	1	1
UBS	2	5	1
Morgan Stanley	4	4	0
Credit Suisse	0	8	0
Bank of America Merrill Lynch	2	6	0
RBC Wealth Management	1	6	1
Janney Montgomery	3	1	4
RW Baird	1	0	7
LPL	1	5	2
Stifel Nicolaus	1	7	0
Oppenheimer	1	4	3
Hilliard Lyons	0	0	8
Edward Jones	0	8	0
Deutsche Bank	1	5	2
HighTower	6	2	0
Dynasty Financial	3	0	5
Focus Financial	2	0	6

Steve Rosen: We still have many brokers who are locked up, whose expiration on deferred comp starts to get thinner next year.

Danny Sarch: We had a great year. It was one of our best ever, if not the best. We placed people at different types of firms.

Bill Willis: There are people who really gave indications they were going to be moving, but just didn't for a variety of circumstances, not the least of which were the retentions. As they amortize, our business will improve.

Rick Peterson: We had a very good year, but not a great year, and it was all because of diversification and placing people more in independents and boutiques. That picked up the slack. I think 2013 is going to be terrific primarily because of the retention packages coming down.

Mickey Wasserman: I have seen a lot more interest coming from high profile teams, multi-million-dollar teams. They've never thought of looking before, but they've started to think about it.

Carri Degenhardt-Burke: It was a really poor year as far as the wirehouses go. As far as some of the regionals and independents, we haven't had lower billings in the last nine years. And it wasn't for lack of candidates. People just pulled the plug at the end of the recruiting process.

Diamond: Many big teams or single mega-producers just always assumed that they would retire from their firms. Those are the folks who are affected by the soon-to-be fully amortized or forgiven retention packages. And the fact that there are so many new opportunities for advisors who may want more independence as opposed to being captive, that helps. We're seeing more senior veterans exploring—and some moving—than ever.

Strong Independents?

OWS: Are there firms that have been more active in recruiting than others this year?

Rosen: You have the four major houses: Morgan Stanley, Bank of America, Wells Fargo and UBS. There's been a slowdown going into the boutique firms, the regional firms. There's certainly some momentum gone from the flight to independence. I think the regionals had their best day when a couple of the major houses were going through transitions and had problems. Now those issues are getting old.

Peterson: I disagree. Several surveys said that one out of every five brokers is going to change firms in 2013. Over half are going to look at the independent channel.

Rosen: The key word there is looking. I'm sure at least one out of five looks or thinks about it, but most don't do it. The ones who do it are brokers who have a unique or special type of business or smaller advisors who are not as welcome at the major firms because they're going to be in a penalty box.

Sarch: Ten years ago the only brokers that went independent were those in the penalty box because it was an economic decision. They would go from a 30% payout at a big firm to a 60% payout being on their own. Now you see bigger teams considering it for the first time, and it's for the freedom outside of the policies and procedures that they find so frustrating at the big firms.

Everybody asks now about independence, but it's not for everybody. Just because you run a practice, doesn't mean you can run a business.

There are many different flavors of independence. There are models in which you just run your own P&L, like a HighTower, but that's a true corporate environment and a true W-2 environment. There are those that are pure RIA, where you aggregate the platform yourself. Then there is—I call it "independence light,"—where you join a FiNet, Raymond James, or LPL, where they do everything for you in terms of setting you up.

The basic problem we have in the industry is that there are very few new people coming into the business. Everybody's competing for the same supply.

Willis: Certainly Ameriprise and Raymond James are particularly aggressive right now. They have institutionalized the recruiting process within their firms and are successfully recruiting. Ameriprise had a banner year. It offers financial advisors choices on how they might align with the firm, either independently or traditionally. Raymond James has five different ways you can align with their firm.

Peterson: LPL and HighTower just had record years in recruiting. People are coming over in droves to those two firms. Wells Fargo is having more interest in its FiNet channel, which is its independent channel, than it is in its regular brokerage channel. We're seeing people not just testing the water, but actually jumping in.

Wasserman: Where advisors go is often driven by their high-net-worth clients. Those around the age of 40 to 50 prefer a broad base of products and want a well-known name brand behind their broker.

Michael King: I think this year you'll see more people going to the wirehouses.

Diamond: More quality advisors and those mega-teams are looking for the first time, and many of them are more interested in the independent space. For years, if you asked them to describe utopia, advisors described some version of independence, wanting more freedom, more control, more entrepreneurial spirit, less bureaucracy. What kept them from going independent was upfront money and having to build something from scratch. The great news is, for advisors and us, that there is choice beyond just the wires.

Trying New Models
OWS: Those new models—the Focus, the Dynasty, the HighTower—are people more interested? How is LPL fitting in?

Diamond: LPL is a little different. The Dynasty, the HighTower, and the Focus are more RIA models, much more for the higher-end advisor and much more fee-based. There are many more million-dollar-plus advisors who are going that way because they and Wells Fargo FiNet pay the most upfront money in the independent broker-dealer world. The LPL model tends to be more for the middle-range advisor, probably in the $400,000 to $700,000 range.

Rosen: Advisors doesn't fully understand what their net payout will be after expenses. It is right for some people, but it's also wrong for many others for two reasons: the independent business model just won't support their businesses, and running their own businesses takes time and energy away from what they actually do, which is being financial advisors. There is less support.

Wasserman: I don't think more than 2% of the brokers actually go independent. There are far higher percentages for wirehouses and even regionals.

Diamond: Firms like HighTower, Dynasty, and Focus aren't looking to recruit mass numbers of people. They're looking to build elite clubs, and they're okay with that. It's a seller's market. The advisor is in the driver's seat.

Changing Channels
OWS: What about the firms that are offering multiple channels—Ameriprise or Wells Fargo. Are they at an advantage now?

Willis: Many of the choices we're talking about offer one-stop shopping. If one firm can cover all the bases, obviously it casts a wider net.

Diamond: Those firms with multi-channels use the word "slide." They say to an advisor, "Start in the private client group as a captive employee and as your note forgives, as you age, or as your needs become different, come slide in to our independent channel or quasi-independent channel." There is an implication of ease of movement. The reality is it's not always as easy to slide as people think or as the firms may say.

Rosen: There's a certain validity and upside to multi-channel. At the same time, you can't be a jack of all trades.

The Compensation Veil
Sarch: This trend toward transparency is out there. It's not going to be swept under the rug. We all

panicked when brokers' records were on the FINRA website years ago. But there's really nothing to be ashamed of or to hide from. Transparency is a good thing.

Wasserman: A broker explains it to his client this way: "My former firm offered me money to stay, and I took money to go. We have our relationship and that's really what matters." How the broker presents it to his or her client is paramount.

King: As far as disclosure goes, it sounds like it's going to be coming. It's not going to be so easy, and our job is going to be to counsel the brokers about it.

Sarch: You guys aren't telling your people to disclose it now? I do. I tell them they have to be open with their clients, because who do you want telling your clients? Do you want it to be you, or do you want it to be the guy who's trying to steal your business from you when you leave?

Diamond: So if today advisors move and choose to say to their clients, "I'm getting paid a bonus of X to go," it's in their control or discretion to do so. The notion that the government or somebody comes along and mandates that they have to is what is going to be problematic.

The second thing that's implicit in this broker disclosure rule is FINRA, which wants to dissuade brokers churning in order to meet back-end bonuses. Not only will advisors have to disclose the amount of the deal, but firms will have to change the structure of the deal or reduce it.

Degenhardt-Burke: Bonuses at the wirehouses will ultimately have to be restructured, maybe on a choice basis where you're not paid upfront anymore and you're paid on the back end. That isn't so attractive to advisors.

A client who's sitting on the sidelines, may suddenly feel neglected. "Oh my God. My guy got $2.7 million to go, and he wants me to sign this." You certainly open yourself up for a lawsuit.

Wasserman: The three top things that clients want from their financial advisors are trust, transparency, and track record. If they have them, they will keep that advisor.

Willis: My advisor just moved, so I got the paperwork from his firm. The ACAT alludes to the fact that your broker might have moved for a variety of reasons, and you should ask him or her exactly why he or she moved. So it really opens the conversation for discussion.

Peterson: When you are giving full disclosure to your clients as a broker who has moved, you say, "You know, not only was I offered money to stay here, but I was actually offered even more money to move elsewhere. This was not a matter of money. This was a matter of principle. This is a matter of finding the right products and services for you, my client."

High-Water Deals

OWS: Deals for the wirehouses are at a high-water mark. How do you see that playing out in 2013?

Diamond: There may be some flexibility for high-profile teams that firms want, but by and large they have remained at about 140% upfront for the last few years.

Wasserman: The deals will remain the same at the wirehouse level, but the regional firms are starting to compete, to come closer to those larger deals. They're realizing that they're not getting the people who want the upfront check.

OWS: Which firms in particular?

Wasserman: Ameriprise.

Diamond: Raymond James, Janney, RBC.

Peterson: Southwest Securities.

Willis: After 2008, people ran to those firms and accepted lower deals because they were the only alternative around. That's all changed now.

Peterson: If they can get more access to capital to compete with these brokers, they're still going to have to raise their upfronts in order to recruit them successfully. In a broker's mind, there's an inherent risk in going with a smaller firm.

Rosen: The regionals had their day in the sun a few years ago. They cannot and will not compete with the major houses because they do not have scale.

King: People go to the independents, the regionals for independence. They can control their own destiny, control their own business.

Willis: With a payout at 45% basically amortized over 10 years, we're paying someone out at 75%. Can you make money doing that, running a fancy branch with a lot of support and a lot of technology? The margins are very thin there, and a lot of regional firms aren't players because they need to have clearer and better operating margins to exist.

Sarch: The smaller firms are showing a value proposition that says over time, you'll make more money here. It's still about going to work and making money, which is what the advisor wants to do. If they can demonstrate an accommodation payout, deferred comp, ownership of the business, and freedom, it's still better and you will make more money. That's how they compete.

OWS: Last year we talked about changes in leadership ranks at Merrill Lynch. The firm's stock price had hit new lows. Have we moved on from that and has the perception of the firm changed?

Willis: Merrill Lynch has had a much better year. It's not a perfect world, but many real and perceived problems seem behind them.

King: We're all still waiting for the other shoe to drop, for them to put in certain regulations that will upset their brokers.

Willis: The Morgan Stanley people, when they recruit, spend a lot of time saying they're not a bank, and yet now they're talking about lending as their growth. I think the lending piece is vital to dealing with the client of tomorrow. Bank of America knows what it's doing there.

OWS: What kind of financial advisors would you say are benefiting from the combination?

Willis: Those people who've rolled up their sleeves and gotten involved with their colleagues at the bank and learned how to leverage that side of it.

Rosen: If they wanted to work at a bank, most of the financial advisors would have worked at a bank. Bank of America is keeping its brokers around, getting its hands in their pockets and access to their clients.

Diamond: Merrill Lynch had a lot of attrition right after the bank came in because many people were pretty clear they didn't want to work for a bank. In the last year or so, there is much more clarity. Merrill Lynch is more clear about who it is. That's why its recruiting numbers have picked up. I think a good number of those advisors are still going to leave .

Weighing Other Wires

OWS: What about Morgan Stanley and Smith Barney? How is that working out?

Peterson: The problems are primarily with their technology. If the problem still exists—and it doesn't look like the end is in sight in getting the technology fixed—more brokers are going to continue to leave Morgan Stanley. There are also a whole host of other problems that, at least in the minds of the legacy Smith Barney brokers, are still there.

Sarch: I think that the technology is more of a symptom, which was the culture. "You're going to do it this way, and you're going to like it. Trust us." I think that's wearing on people because they haven't delivered on what they said they were going to deliver on.

Wasserman: Another big problem at Morgan Stanley has been the consolidation of managers.

Willis: There's been a lot of discontent, not about who won and who lost among managers, but how the losers were treated. Career managers were suddenly told, "You're not making $400,000 to $500,000 a year. You're making $60 grand, plus you're now a producer." How it was handled was pretty darn harsh.

Peterson: The concept of a producing manager doesn't work. Brokers who work for a producing manager feel that the manager is going to steal all the accounts.

Willis: I was a complex manager at Merrill; I had producing managers working for me. It's the hardest job at the firm. I do think, however, putting someone in that role who has no book and saying, "Develop a book," is mission impossible for both sides. To go from zero to where you need to be and also to manage the office, I don't know how you do that. They're asking a lot of people to do that, and I think many will fail.

Peterson: Several years ago we moved away from producing managers almost entirely with the major firms. It was basically because of compliance problems. The producing managers just didn't have the time to do everything expected of them, including produce, but also to do recruiting and all the other things involved with a manager's job. We're going to have the same problems with compliance that we had before because of their adherence to other issues instead.

UBS Raises Its Profile

OWS: UBS has been in the headlines this year for some events not on the wealth side—the U.K. trading scandal and the LIBOR issues. How has this past year been for the firm's U.S. wealth business?

Sarch: They've had a great year. Their advisors are the most productive in the industry in terms of assets and average production. They've done a good job of keeping an eye on the ball and in removing obstacles to make advisors feel good about what they're doing day-to-day. I think there's an advantage to being half the size of the other big firms.

Peterson: Bob McCann and [Bob] Mulholland have done a phenomenal job of turning the ship at UBS. It makes it easier to sell a medium-sized firm because it has more of a feeling of a boutique or a regional as opposed to another big wirehouse with the usual wirehouse problems.

King: I'm surprised there is not more dissatisfaction based on the LIBOR incident that occurred. You'd think more of the brokers might be concerned about it, wanting to move, but I don't see evidence of that.

Diamond: Advisors know that if they work at a big firm, they are always one headline away from a problem. Those kind of things are what drive a lot of big producers to say, "I've run a good, clean business and I'm just tired of having to defend the actions of others." Many of them are very concerned about this latest scandal.

Rosen: They had a good recruiting year. They brought their assets up. They brought the production up. But at what cost? At the cost of overpaying in the marketplace for the highest deals that have ever been seen. This has hurt the company and will hurt the company.

Sarch: I strongly disagree with a lot of what Steve said. They changed policies and procedures in terms of what has to be done in order to get business done.

Consolidation Lessons

OWS: Let's talk about the Raymond James, Morgan Keegan deal. Last year when we gathered, Morgan Keegan was on the block. We weren't sure what was going to happen with it. Then they did the deal with Raymond James. How has that transition been for the advisors?

King: From what I can see, it's gone quite well. Raymond James seems to know how to integrate them. They seem not to have put roadblocks in their way. It was a good cultural choice. There weren't that many cultural choices but it was a very good one.

Peterson: As mergers go, it's about as successful as they can be in the industry. They were both in the same footprint in the Southeast, so that didn't hurt matters. But they kept the culture of both firms exactly the same. They kept a lot of the management in both firms. And Morgan Keegan was in such a quandary about what was going to happen to them for so long, that Raymond James was a breath of fresh air for them.

Willis: It's been a definite home run. It's probably the most successful merger that we've seen in recent memory, maybe ever for that matter. A year down the road, I think the rate of attrition is the absolute minimum.

Sarch: They've done a great job integrating. Now it will be fascinating to watch and compare it to some of these other firms. The technology conversion is still scheduled for February or so, and that will be a determining factor in my mind as to how we all judge. For now they're running two systems, and it's working well. They've made people feel good, and their attrition really has been small.

OWS: So if the transition has been so successful, what lessons can other firms take from that?

Sarch: Lesson one is about culture. It's got to be the right fit. Lesson two is about technology. Be careful that it doesn't come back and bite you.

Peterson: The importance of management either haunts or helps a deal. Brokers don't actually join a firm. They join a manager. I could give you examples of brokers saying they really loved their firm. When you asked they what they loved about it, though, they mentioned a person's name.

The success of this merger is pretty simple—they kept the key managers in each location. In a lot of other mergers in the past, it's been a conflict. There's been a clash where they had to interview for their jobs. Many of them didn't get it, so the brokers felt disenfranchised.

Reading the Tea Leaves

OWS: What are your predictions for 2013?

Peterson: I see a further jump to independence. I know what we discussed earlier about the fear that brokers have about running their own businesses, especially if they are coming from the wirehouse environment. But as they see other brokers going independent and becoming successful, a lot of that fear factor will go away.

Wasserman: As in 2012, there will be more movement of major teams. That trend will continue. These moves will shock the firms that they're leaving and shock the industry as well. We're going to see $3 [million], $4 [million], $5 [million], and $10 [million] dollar teams making moves in 2013.

Sarch: The aging of the sales force remains the big issue. The wirehouses have older sales forces. They're not successfully training new advisors. Merrill's got a new program, but the jury's out about whether it's good or not. But by and large new people are not coming into the industry. So we're all competing for the same pool. The firm that figures out how to use succession to appeal to younger advisors will be the winner.

Willis: That's one of the reasons this movement to independence is happening—succession planning, which firms have not done very well. Back in the day, if you worked at one of the major firms, you loaded up with stock, you had it in your deferred comp. It was enough to retire on, period. Now that's kind of all gone away. You're seeing Merrill paying a little bit more for these retirement plans, but still it's probably not enough.

Diamond: Better succession planning is important. The blind loyalty advisors had toward senior leadership at their major firms is gone. So you're going to see more of a flight to independence.

Another trend is that more models like HighTower and Dynasty will be born. In whatever form they are, they will figure out ways to incent advisor movement through transition packages to take some of the short-term sting away, to make it a turnkey solution, and to allow the advisor to offload the minutiae of running the business. The goal is to be more independent and have greater control, but not have to deal with the heavy lifting of running the business.

Advisors in general are learning to think more long term. That's the biggest paradigm shift, and it's why a lot of these larger teams are moving. Advisors were always trained to think in the short term. "How much upfront money are they giving me?" They never even cared what the back-end portion of the deal was.

Rosen: I'm disagreeing with everything I'm hearing—that there's going to be a flight to independence for succession planning. After you completely change your business and your life and go independent, then you have to sell your business. You're going to make more by selling to a wirehouse, getting the 300% to 330% check and retiring in five years, which you can do. You don't have to work a full nine years. It's often harder to sell on the independent side, and you're definitely not getting as much.

Wasserman: Like Danny, I think the future of the brokerage industry is going to rely on younger advisors coming into the business, and that requires training. I don't see independents putting forward any training programs for younger advisors. Merrill is very successful in the new training program that it put out.

Peterson: Thank God for the firms that are trying to train people because we're running out of brokers. I say that with all due respect to the young people who are coming into the business. But the fact is that two out of 13 actually make it in most training programs. With those numbers, it's very difficult to cost-justify training programs. I hope they all succeed because we need some brokers.

One of our regulars, Rich Schwarzkopf, president of Schwarzkopf Recruiting Services, was not able to attend our event. Here is his take on advisor movement and the year ahead.

"I think it was a pretty miserable year for firms and recruiters generally. The amount of movement was definitely down. The headcounts at the major firms and most firms have either flatlined, they're holding their own, or they've gone down some. I don't think next year will be any different."

"One thing I see with all of the firms is the continued demise of the non-producing branch manager. It's like a species gone, disappearing. I get calls all the time from non-producing managers—big names, big firms. They can't find a job."

"What I'm seeing personally is less brokers wanting to move, but bigger brokers wanting to move. I've placed a good deal fewer brokers, but the ones I've placed were much bigger than normal. So what I lost in volume I gained in price. I see more big brokers moving or teams of brokers looking to move, you know guys doing $1 million to $5 million, which is something you didn't see that much before."

"The guys that I placed this year were really unhappy. 'Rich, get me out of here. I'm sick of this place.' It's not one reason, but they want another firm. And they'll pick firms that are not huge household names. If you're a big producer, brokers move with you as long as you have a good clearing firm."